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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001071

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SUBJECT: CORRUPTION INVESTIGATION AT PORT NOT YET CREATING
FOOD SHORTAGES

Classified By: Classified by: Economic Minister Counselor Charles P. Ri
es for reasons

1.4(b) and (d)

11. (C) Summary: The Deputy Minister of Trade's concerns that Prime Minister Maliki's April 3 decision to put all staff at the Port of Umm Qasr on leave for investigation of corrupt practices may lead to shortages of wheat, rice and other Public Distribution System (PDS) commodities throughout the country, appear to be unfounded. The Deputy Minister of Transportation has assured us that unloading of food commodities at Umm Qasr will continue. Since Umm Qasr is the major port of entry for capital goods, consumer goods, and raw materials, any delays in food shipments could lead to higher prices and inflation. As of April 6 at the port itself, food off-loading has returned to a normal pace and there were trucks waiting to transport the unloaded-grain. The Iraqi Army remained in control of the port. End summary.

Ministry of Trade: Attempts to Eliminate Port Corruption
Could have Near-Term Economic Impact

12. (C) The Prime Minister's April 3 announcement that all of the staff at the Port of Umm Qasr would be put on involuntary leave during a month-long corruption investigation led to concerns about consequent food shortages and inflation pressures. Umm Qasr is the key point of entry for capital goods, consumer goods, and raw materials for the economy. Corruption and theft have been a major problem at the port. The Ministry of Trade (MoT) facility is recognized as a center of Jaysh-al-Mahdi (JAM) activities that focus on the diversion of PDS commodities and corrupt practices on the discharge and handling of these goods.

13. (C) Deputy Minister of Trade Dr. Soiba Zangana told AGCOUNS on April 2 that the forced leave of MoT employees would have a sharp impact on flows of wheat, rice and, to a more limited extent, other PDS commodities into the country. Stocks of wheat and rice at many MoT silos, as well as at public and private flour mills upcountry, are very low, she said. Funding problems for PDS commodity imports in late 2007 and early 2008 caused by higher global commodity prices have contributed to this low stockpile situation. There are currently approximately 250,000 metric tones (MT) of wheat and 80,000 MT of rice on vessels waiting to be unloaded at the port. (NOTE: 30,000 MT of rice are subject to a quality dispute between MoT and the Thai company that sold the rice. END NOTE) Another 150,000 MT of wheat and 80,000 MT of rice are expected to arrive at Umm Qasr within the next 3 weeks. The PDS requires approximately 250,000 MT of imported wheat and 70,000 MT of imported rice per month. (NOTE: USDA estimates that the Iraqi wheat crop, which will begin to be harvested in June, will be down sharply this year due to poor rainfall conditions in the North. This will result in added demand for imports. END NOTE)

14. (C) Soiba said that she has proposed that the Iraqi Government import wheat flour and other commodities in short supply directly from neighboring countries, including Kuwait, the UAE, Syria and Turkey, but notably not Iran. However, it will likely take several weeks for these arrangements to come fruition and even longer for supplies to reach Iraq.

Ministry of Transportation: Food Unloading Will Continue

15. (C) Deputy Minister of Transportation Bangen Rekani was more sanguine in an April 3 discussion with Transportation Attache staff. Bangen noted his support for whatever it takes to rid the port of corruption and criminal elements. Food off-loading would continue, he said, though there could be delays that might lead to the spoilage of some perishable goods.

Vessel Loading and Unloading Continues at the Port

16. (SBU) USG personnel in Umm Qasr report that conditions in both the port and the village remain calm. Vessel loading and unloading operations are proceeding at a normal pace according to one merchant mariner of a UAE-based ship with two years of experience at Umm Qasr. Sources at the Port of Umm Qasr do not anticipate any major long term interruptions of grain cargo transfer. In particular, grain unloading operations at the Ministry of Trade Silo have recommenced after a few days of delays due to a lack of dockside labor and concerns among truck drivers of militia retaliation, that had made them reluctant to move grain cargo from the port.

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On April 6, stevedores were unloading 4,000-5,000 metric tons per day and General Company for Ports of Iraq personnel at Umm Qasr reported that their grain-unloading equipment was operating normally. Also as of April 6, there were at least a dozen grain trucks waiting to pick up cargo. Two drivers told Econoff that since the Iraqi Army regained control of the port, they no longer had to pay the extortion demanded by the Jaysh al-Mahdi in order to enter the port. According to one driver, this payment had amounted to about USD 125. Contacts at the port claim, however, that some of the militia-affiliated "security forces" have been rehired to patrol inside the port.

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